

PERTH AND KINROSS COUNCIL

7 October 2020

TREASURY ACTIVITY AND COMPLIANCE REPORT 2020/21 QUARTER 1

Report by Head of Finance (Report No. 20/178)

PURPOSE OF REPORT

The purpose of this report is to update the Council on Treasury Activity for the quarter ending 30th June 2020 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Treasury Management Practices (TMPs); the Investment Strategy and the Prudential Indicators for the same period.

1. BACKGROUND / MAIN ISSUES

- 1.1 Treasury Management Practice 6 (TMP 6 - Reporting Requirements & Management Information Arrangements) requires that Loans Fund borrowing and investment activities are reported quarterly to the Council. This report covers the first quarter of the financial year for the period from 1 April to 30 June 2020.
- 1.2 The report for the fourth quarter of 2019/20 (ending 31 March 2020) is available on the Councillor's CHIP Sharepoint site.

2. ECONOMIC BACKGROUND

- 2.1 The UK Bank Base Rate remained at 0.10% over the quarter. However, the quantitative easing (QE) programme was increased by £100bn by the Bank of England's Monetary Policy Committee (MPC) at their meeting on 18th June 2020. Due to the impact of Covid-19 and the lockdown restrictions on the economy, UK Gross Domestic Product (GDP) fell by 20.4% in the quarter ended June 2020, the highest quarterly fall since records began in 1955. This was the second consecutive quarterly decline, therefore confirming that the UK is officially in a recession due to the Covid-19 pandemic.
- 2.2 In addition, employment fell by 220,000 to 32.92 million, the largest drop since July 2009. Average earnings also reduced from the previous quarter. UK Consumer Price Inflation including housing costs (CPIH) decreased from 1.5% in March to 0.8% by June 2020. This was due to falls in energy and oil prices as well as a slow down in the cost of recreational and cultural goods. Retail sales fell by 18% in April, before picking up again in May and June, almost back to pre-pandemic levels. However, the sales performance between different sectors reflected a variable pattern when compared to before the lockdown restrictions were introduced.
- 2.3 Internationally, Eurozone GDP growth reduced by 12.1% in the quarter to June 2020, the biggest reduction on record. With the EU also entering a

recession due to the impact of coronavirus, EU unemployment increased to 7.10%.

- 2.4 In the US, the economy declined by 32.9% in the quarter to June 2020 from the previous quarter. This was also the largest fall on record, with the US economy also now in recession. The Federal Reserve interest rate was unchanged at between 0% and 0.25%, whilst the quantitative easing programme also remained unchanged.
- 2.5 The Public Works Loan Board's (PWLB) Certainty fixed interest rates for the quarter, which are based on yields on UK gilts, are shown in the graph at Appendix I. Following extreme volatility and large falls in rates in the previous quarter in response to the impact of the pandemic on trade and economic activity, rates followed a more stable pattern in the current quarter, although they remained on a downward trend. PWLB rates remained within historically low ranges, with rates for all borrowing periods lower by the end of the quarter.

3. TREASURY ACTIVITY

- 3.1 A summary of the Council's treasury position and transactions is shown at Appendix II. The main activities are detailed below.
- 3.2 During the quarter there were no maturing long term loans nor any new borrowing undertaken. Therefore, the Council's total long-term debt remained at £541.4 million over the quarter, and the average interest rate remained at 2.61% for PWLB debt and 2.77% for all long-term debt.
- 3.3 To manage cashflow, there were four short term market loans totalling £30 million borrowed at various times during the quarter for an average period of 31 days and at an average rate of 0.33%. The need for short term borrowing was due to increased expenditure in response to Covid 19. This reflects additional expenditure on welfare; social care and education provision; accelerating the Council's payment terms so local suppliers were paid more quickly, together with a reduction in income due to the inability to charge for certain services. At the end of the quarter, one loan for £10 million at 0.15% remained outstanding and was subsequently repaid. Common Good and Charitable Funds balances held on fixed deposit within the Loans Fund remained unchanged at £2.1million with the average interest rate paid reducing to 1.00% from 1.02%. Funds held from associated bodies and organisations increased to £3.6 million over the quarter from £2.5 million, in line with their own cash flow requirements, whilst the average rate paid on these funds increased to 0.19% from 0.18%, in accordance with the approved Temporary Loan policy.
- 3.4 Short term cashflow surpluses were invested in a mixture of fixed term deposits, instant access accounts, notice accounts and money market funds. All investments were made in accordance with the approved Investment Strategy and Permitted Investments.

Fixed Term Deposits

3.5 Cashflow surpluses which arise during the year and which are not immediately required are generally invested in fixed term deposits for periods of up to 12 months. The activity for the quarter can be summarised as follows:

- There were 7 fixed deposits made in the quarter, 1 less than in the last quarter.
- The average deposit amount was £6.4million, an increase from £4.4 million in the previous quarter.
- The average period of deposit was 286 days, an increase from 110 days in the previous quarter.
- All the deposits in the current quarter were made with other local authorities, thereby giving a spread of investments. These replaced deposits maturing with banks.
- The average rate achieved in the quarter decreased to 0.93% from 1.19% in the previous quarter reflecting the decrease in rates following the reduction in base rate and the supply and demand of inter-local authority lending.

Investments for Daily Cashflow Requirements

3.6 Cashflow surpluses which arise but which are required for more immediate needs, usually within the next 3 months, are invested in the Council's instant access, notice deposit accounts and money market funds. During the quarter, there was an increased cashflow requirement as the Council responded to the impact of the pandemic on the local economy and residents. The short term investment transactions in the quarter can be summarised as follows:

- The daily average amount of such investments increased to £6.0 million from £5.3 million in the last quarter.
- The average interest rate achieved on these accounts over the quarter decreased to 0.36% from 0.65%, reflecting the reduction in available rates following the reduction in the base rate in March.

3.7 The total amount of investments outstanding at the end of the quarter increased, closing at £208.8 million compared to £206 million at the end of the last quarter. The overall average rate of interest earned on the investments outstanding at the end of the quarter reduced to 0.96%, from 0.99% at the end of the previous quarter.

3.8 Total investment income generated on the investments undertaken during the quarter was £419,120. This measure reflects the total return on the investment activity undertaken in each quarter.

3.9 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements for the final quarter of the financial year.

4. COMPLIANCE

- 4.1 For the quarter ending 30 June 2020, there were no breaches in compliance with the Council's approved Treasury Management Policy Statement, Treasury Management Practices (TMP's) or lending limits as detailed in TMP 4 (Approved Instruments, Methods & Techniques).
- 4.2 TMP4 also requires that a working list of specific approved counterparties (including lending limits) is maintained by the Head of Finance. This list is continuously reviewed and updated for any movements in credit ratings and other relevant factors including press coverage or emerging issues. Appendix III shows the list of approved counterparties, based on the current lending policy, as at August 2020.
- 4.3 A further requirement of TMP4 is to measure cashflow performance, which is expressed as the average closing cleared bank balance for the period. For the quarter ending 30 June 2020 the adjusted average closing cleared bank balance was £30,092 in credit.

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 The Treasury Investment Strategy for 2020/21 is the subject of a separate report to this meeting of the Council.
- 5.2 The actual level of investments peaked at £254.9 million on 1 April following the receipt of £36.3 million from the Scottish Government to fund the payment of business support grants but gradually fell over the remainder of the quarter (subject to daily fluctuations) as the Council responded to support the local economy and communities. It is anticipated that this balance will gradually reduce over the rest of the year in line with forecast cashflows. The average daily investment balance over the quarter was £214 million, which increased from an average of £175 million in the previous quarter and increased from £68 million in the same quarter of last year. These variations reflect the level of new PWLB borrowing undertaken in the last financial year, as well as the receipt of grant and subsequent payment of support grants during the current quarter.
- 5.3 The Investment Strategy was applied in full over the quarter, with liquidity being maintained using instant access accounts, notice accounts and money market funds as detailed in Section 3.6 above. There were no other risks identified in the quarter.
- 5.4 The Investment Strategy also incorporates investments held by the Common Good Funds. All such investments during the quarter were with the Council's Loans Fund. The only Council funds held by external fund managers relate to Council administered Charitable Trusts and are, therefore, not covered by the Investment Strategy.
- 5.5 The budgeted income in 2020/21 for Commercial Property investments is £1,871,000 whilst the latest projections for the year is £1,830,000. There

were neither additional risks identified nor new property investments entered into during the quarter.

6. PRUDENTIAL INDICATORS

- 6.1 The Council considered the Composite Capital Budget for 2020/21 to 2028/29 at its meeting on 30 September 2020. Consequently, the Prudential Indicators for 2020/21 to 2028/29 have been updated in the Annual Treasury & Investment Strategy report.
- 6.2 The approved Prudential Indicators will be monitored in future quarterly Treasury Activity and Compliance reports submitted to the Council.

7. CONCLUSION AND RECOMMENDATIONS

- 7.1 Treasury Management activity in the quarter included the use of instant access, notice accounts and money market funds to meet short term liquidity requirements, with fixed rate deposits undertaken with other local authorities for longer investments (over 3 months). The total level of investments increased marginally over the quarter.
- 7.2 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance.
- 7.3 It is recommended that the Council notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.

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Approved

Name	Designation	Date
Stewart MacKenzie	Head of Finance	29 September 2020
Karen Donaldson	Interim Chief Operating Officer (Corporate & Democratic Services)	1 October 2020

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	No
Asset Management (land, property, IST)	No
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2023 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.2 This report relates to all these objectives.

2. Resource Implications

Financial

- 2.1 There are no direct financial implications arising from this report other than those reported within the body of the main report.

Workforce

- 2.2 There are no direct workforce implications arising from this report.

Asset Management (land, property, IT)

- 2.3 There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3 Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

- 4.1 The Chief Executive, and the Council's Treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

- Appendix I – PWLB Fixed Maturity Interest Rates from 1 April to 30 June 2020.
- Appendix II – Summary of the Treasury Position and Transactions from 1 April to 30 June 2020.
- Appendix III – Approved Investment Counterparty List
- Appendix IV – Financing Costs : Net Revenue Stream